

**3D Financial Planning**  
Independent Financial Advisors

## Estate planning

Your guide to effective estate planning: writing your will, executorship and tax-planning.

Developing a plan for what happens to your assets after you die is something everyone has to do. Whether you're in possession of a multi-million pound estate or your assets are worth less than the £325,000 inheritance tax (IHT) threshold, estate planning is vital to ensure your assets will be inherited by the people you intend.

For those that own an estate valued at more than the IHT threshold, ensuring the transfers are done as tax-effectively as possible becomes a consideration of equal importance.

This guide will provide information on three of the key elements of estate planning: writing your will, executorships and tax planning.

### Making a will

Deciding who you want to inherit your assets is the first stage to planning your estate. This is achieved through a will, which is a legal document that determines how your estate will be distributed after you die and when the assets will be transferred.

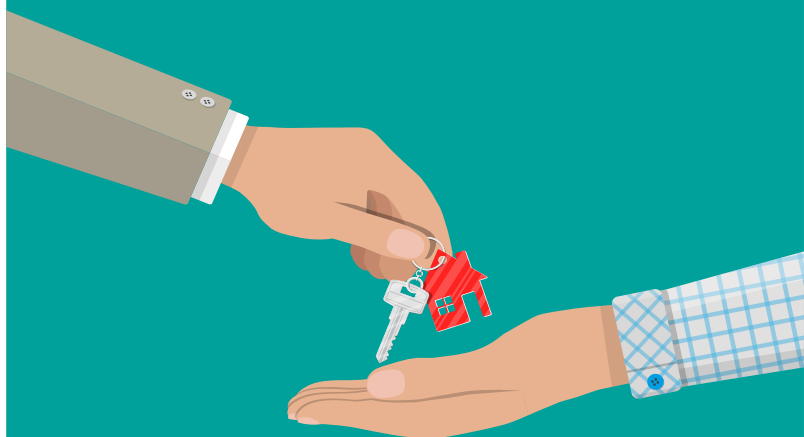
You should consider not just who you want to inherit your estate, but when they will be able to access the assets and whether you want to place any limitations on their use.

### Why write a will?

Making a will is important for several reasons:

#### Ensuring the financial security of your family

Wills ensure your estate will be inherited by who you choose, helping to provide financial security for your family and their descendants. They can also be used to outline guardianship arrangements for children under the age of 18. Failure to write a will before you die will result in your estate becoming subject to intestacy rules. Your estate will then be distributed according to fixed rules and will not take your personal wishes into account.



#### Preventing disputes

Dying without a will – or leaving a poorly-written will – can result in conflict between family members. Making your wishes clear and unambiguous will mitigate the potential for family disputes.

#### Minimising inheritance tax

The amount of IHT charged on your estate may be reduced by careful planning (for example, writing a trust into your will).

### Writing your will

You have several options when it comes to writing your will. Firstly, you can go to a will-writing service. While this is a low-cost option, your will writer may not be legally qualified and such services aren't subject to the same regulations as legal professionals.

If you have a large and complex estate that exceeds the IHT threshold you should consult a professional. Legal professionals can be expensive but it is essential to get expert advice if you have a large estate or a complicated family situation.

You can also write your will yourself, but you should only do this if you are confident you have the necessary legal expertise. Without consulting a professional you run the risk of writing a will that isn't legally valid.

### Choosing your executor

Although making a will is an essential component of estate planning, it will be of limited use if nobody is responsible for ensuring your wishes are carried out. This is the job of the executor.

The executor is responsible for dealing with your estate, ensuring the beneficiaries receive their inheritance and paying any taxes charged on your assets.



# Estate planning

You can name anyone aged 18 or above to be an executor of your will – even if you have included them as beneficiaries of your estate. The main thing to remember is your executor must be someone you trust – both to deal with family members and handle the legal and tax matters.

You are able to appoint up to four executors, so you could choose both a member of your family and a professional – such as a financial adviser – to manage the administrative work.

## Inheritance tax planning

Keeping as much of your estate out of the taxman's hands should be a top priority during the estate planning process. An IHT charge of 40% is charged on estates worth more than the nil-rate band (£325,000). IHT is levied on any amount exceeding this threshold, rather than the total value of the estate.

There is also an additional nil-rate band (currently £100,000) available when a family home is passed to a direct descendant.

If your estate valuation exceeds the nil-rate band, the main goal therefore is to reduce its value below £325,000. **Gifting assets** and **placing assets into trust** are two effective ways to achieve this.

### Gifts

Making charitable donations and gifts carry tax advantages.

### Reducing the rate of inheritance tax

Gifting a minimum of 10% of your estate to charity will see your estate charged a reduced IHT rate of 36%.

### Tax-free gifts

Each tax year you can make the following IHT-free gifts:

- gifts of up to £3,000
- marriage and civil partnership gifts worth £5,000 (for parents), £2,500 (for grandparents) and £1,000 (for non-relatives)
- normal gifts out of income (such as Christmas and birthday presents), as long as your standard of living is not affected by the gift
- small gifts up to £250 per person (as long as you haven't used another exemption with the same person in the same tax year)
- financial assistance to family members or friends, to help with their living costs
- gifts to charities and political parties.

### Potentially exempt transfers and the taper relief

Potentially exempt transfers (PETs) are gifts made out of your estate that may be fully exempted from IHT should you live for seven years after making the transfer. Taper relief will be applied should you die within seven years, although the rate of IHT charged will depend on the time of death.

### Taper relief

Years between gift and death	Taper relief rate
0 – 3	0%
3 – 4	20%
4 – 5	40%
5 – 6	60%
6 – 7	80%
7+	100%

### Trusts

Trusts are legal arrangements in which the ownership of assets from your estate are passed on to a single trustee or a group of trustees. The trustees are responsible for administering these assets and any income they generate, while ensuring they are distributed according to your wishes.

Bare and discretionary are two common types of trust, both of which are treated differently for IHT.

**Bare trusts** are the simplest type of trust. The beneficiaries of a bare trust get access to its assets and income when they reach the age of 18. Bare trusts are often set up to hold assets for children who are not yet old enough to control them.

Asset transfers into a bare trust are treated as PETs and thus will be exempt from IHT as long as you survive for seven years after the transfer date.

**Discretionary trusts** provide more power to trustees to manage and distribute its assets. Beneficiaries of a discretionary trust do not have an automatic entitlement to a share of the assets. Instead, trustees can decide how to distribute the income and sometimes the capital, depending what was agreed in the deed. This includes which beneficiary to pay, frequency of payments, payment amount (income or capital) and any conditions to impose. Transfers into discretionary trusts (and all other types of trust) are treated as chargeable lifetime transfers, which are taxed at a reduced IHT rate of 20%.

We offer estate planning services.

### Important information

FCA regulation applies to certain regulated activities, products and services, but does not necessarily apply to all tax planning activities and services. The FCA does not regulate advice and services in respect of establishing trusts, IHT planning not involving regulated products or services, or will writing services.

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